BEFORE THE
ILLINOIS COMMERCE COMMISSION

North Shore Gas Company	:	Docket No. 12-0511
The Peoples Gas Light and Coke Company	:	Docket No. 12-0512

Rebuttal Testimony of
Scott J. Rubin

on Behalf of
the People of the State of Illinois

AG Exhibit 6.0

January 16, 2013

Introduction

Q. Please state your name.

A. My name is Scott J. Rubin. I previously filed direct testimony on behalf of the Office of Attorney General ("AG"), which was labeled AG Exhibit 3.0.

Q. What is the purpose of your rebuttal testimony?

A. I will respond to various statements and analyses in the rebuttal testimony filed on behalf of The Peoples Gas Light and Coke Company ("PGL" or "Peoples") and North Shore Gas Company ("NS" or "North Shore") (collectively, "Companies"). Specifically, I will be addressing issues raised by PGL-NS witnesses Grace and Hoffman Malueg. In addition, I will present the AG's proposed rates for residential (S.C. 1) rates for heating and non-heating customers for both Peoples and North Shore. These proposed rates reflect the AG's recommended adjustments to the Companies' revenue requirements, as well as my rate design recommendations.

Response to Ms. Grace

Q. Have you reviewed the rebuttal testimony of Ms. Grace (NS-PGL Ex. 32.0)?

A. Yes, I have reviewed Ms. Grace's rebuttal testimony and the accompanying exhibits and workpapers.

Q. On pages 9-13 (NS) and 17-18 (PGL) of NS-PGL Ex. 32.0, Ms. Grace states that your proposed flat rate for non-heating customers should not recover storage-related charges. How do you respond?

A. I do not agree with Ms. Grace's rationale, but to minimize the issues in controversy in this case, I will accept her recalculation of my non-heating rates to exclude storage-related costs from the flat charge. The amount of storage-related costs charged to non-heating customers is minimal and I do not consider the treatment of storage-related costs to have a material effect on the rates for non-heating customers.

Q. On page 22, Ms. Grace states that your proposed increase in the second block charges for NS heating customers would be "dramatic" and "could also present a burden for certain low-income and elderly customers who use gas at higher levels." Do you agree?

A. No, I do not agree. Ms. Grace's claims are not supported by her own analysis. On NS-PGL Ex. 32.9, page 2, she shows the monthly bills for a customer with a typical usage pattern, under both her proposed rates and my proposed rates, using North Shore's rebuttal revenue requirement. This exhibit shows that my rate design would result in a typical customer paying $5.48 more per year than the customer would pay under the Company's rate design; a difference of about one percent. What Ms. Grace's analysis does not show is that my proposal would result in lower bills for customers who use less gas than the typical customer, and somewhat higher bills for customers who use more than a typical customer. The difference between our proposals is largely the result of Ms. Grace attempting to recover most costs – including demand-related costs – through the customer charge. This is exactly the same problem that resulted in the rates to non-heating customers ballooning well past the cost of service for those low-use customers. The same problem would occur for lower-use heating customers. The slight increase for a typical customer occurs under my proposal because I have designed rates that recover demand-related costs on a per-therm basis rather than in the customer charge. My proposal is consistent with the cost of serving different types of residential customers, as shown by the Companies' own cost studies, because demand-related costs are closely aligned with gas consumption. There simply is no basis for Ms. Grace's assumption that demand-related costs are the same for each heating customer.

For example, let's assume a heating customer who uses 25% less gas than the typical heating customer shown on NS-PGL Ex. 32.9, page 2. On AG Ex. 6.01, I have reproduced Ms. Grace's analysis from her exhibit, but with a customer who uses 25% less gas in each month than the typical North Shore S.C. 1 heating customer. My exhibit shows that such a lower-use customers would pay about $9 per year (2%) less under my rate design proposal than under Ms. Grace's proposal. Moreover, as I explained in my direct testimony, my proposal is consistent with the cost of serving this type of lower-use customer because it does not assume such a customer has the same level of demand-related costs as the typical customer.

Ms. Grace's assertion about the possible impact of my proposal on "certain low-income and elderly customers" is not supported by any facts or analyses. She also fails to mention those low-income or elderly customers who use less gas than a typical customer would benefit from my proposal.

Moreover, if the Companies are so concerned about the effects on those customers, they should not be proposing such a substantial rate increase – and they certainly should not have increased their revenue requirement claim by tens of millions of dollars in their rebuttal case.

Q. Do the same facts apply to your proposed rates for Peoples Gas?

A. Yes, they do. On NS-PGL Ex. 32.10, page 2 (and discussed on pages 27-28 of her rebuttal testimony), Ms. Grace performs the same type of analysis for Peoples Gas S.C. 1 heating customers. Her analysis shows that for a typical customer my rate design would result in a bill that is $6.46 (1%) higher on an annual basis than would occur under the Companies' proposal at the PGL-proposed revenue requirement.

Once again, this slight increase for a typical customer occurs under my proposal because I have designed rates that recover demand-related costs on a per-therm basis rather than in the customer charge. My proposal is consistent with the cost of serving different types of residential customers because demand-related costs are closely aligned with gas consumption; there is no basis for Ms. Grace's assumption that demand-related costs are the same for each heating customer.

As I did for North Shore, I replicated Ms. Grace's analysis for a heating customer who uses 25% less gas than the typical customer used by Ms. Grace. My analysis, attached as AG Ex. 6.02, shows that such a lower-use customer would pay $19 (4%) less per year under my rate design than under PGL's rate design. My proposal for PGL is consistent with the cost of serving this type of lower-use customer, as shown in the Companies' own cost studies, because it does not assume such a customer has the same level of demand-related costs as the typical customer.

Q. On page 23, Ms. Grace takes issue with your claim that the residential heating class is not homogeneous. How do you respond?

A. I stand by my original testimony on this issue. Ms. Grace has not provided any data to support her claim that the heating class is homogeneous. Her testimony on this point is replete with speculative language, such as "could" and "may" and is completely devoid of references to any data.

Q. On page 37 of her rebuttal, Ms. Grace states that your proposed rate designs for PGL and NS recover less fixed costs than the rate designs she proposes in her direct and rebuttal testimony. Is this correct?

A. No, she is not correct. My proposal for non-heating customers results in higher fixed-cost recovery from those customers than would be the case under Ms. Grace's proposal. Specifically, on PGL-NS Ex. 32.7, page 2, Ms. Grace's own analysis shows that my proposal has a higher fixed charge for NS non-heating customers than does her proposal ($17.74 per month under my proposal vs. $14.19 under her proposal). Yet because of the very low use of non-heating customers, the two proposals would result in nearly identical revenues for the typical non-heating customer, as shown on that exhibit.

The same is also true for my proposal for Peoples Gas non-heating customers. PGL-NS Ex. 32.8, page 2, shows that my proposal has a higher fixed charge for PGL non-heating customers than does her proposal ($17.43 per month under my proposal vs. $13.92 under her proposal). Yet once again because of the very low use of non-heating customers, the two proposals would result in nearly identical revenues for the typical non-heating customer, as shown on that exhibit.

It is accurate that my proposal would result in lower fixed-cost recovery from heating customers than Ms. Grace proposes. This is required to set cost-based rates for a class as diverse as the S.C. 1 heating customer class, as noted at pages 17-25 of my Direct testimony.

Response to Ms. Hoffman Malueg

Q. Have you reviewed the rebuttal testimony of Ms. Hoffman Malueg (NS-PGL Ex. 33.0)?

A. Yes, I have reviewed Ms. Hoffman Malueg's rebuttal testimony and the accompanying exhibits and workpapers.

Q. On pages 5-8 of her rebuttal testimony, Ms. Hoffman Malueg states that your testimony concerning the over-recovery of costs from non-heating customers is the result of cross-subsidization caused by the lack of homogeneity when heating and non-heating customers are placed in the same class; rather than by the movement toward straight-fixed variable ("SFV") pricing. How do you respond?

A. Ms. Hoffman Malueg is partially correct, but she is not telling the whole story. She is correct that the over-recovery of costs from non-heating customers under present rates was caused, in part, by non-heating customers being placed in the same class as heating customers. The other cause – indeed the far more significant cause – was that SFV rates were adopted for the class. As I explain in my direct testimony, SFV rates are not cost-based in that they recover demand-related costs on a per-customer basis, rather than on a usage basis. It is the use of this improper rate design for a residential class with such significant diversity that caused the enormous cross-subsidies between heating and non-heating customers under present rates.

Indeed, as I showed on AG Ex. 3.02 attached to my direct testimony, PGL's current rates (with residential and non-residential customers in the same class) effectively recover an average of $15.61 in demand-related costs per customer. But the demand costs incurred to serve a non-heating customer average only $1.19 per month, while those to serve an average heating customer are $17.95 per month. Thus, it is the lack of homogeneity coupled with the use of an SFV-type rate (which assumes equal demand-related costs for every customer) that caused the enormous cross-subsidies between S.C. 1 heating and non-heating customers under existing rates.

The same is true for North Shore. North Shore's current rates (with residential and non-residential customers in the same class) effectively recover an average of $11.59 in demand-related costs per customer. But the demand costs incurred to serve a non-heating customer average only $1.11 per month, while those to serve an average heating customer are $11.72 per month. As was the case for PGL, it is the combination of the lack of homogeneity and the use of an SFV-type rate (which assumes equal demand-related costs for every customer) that caused the enormous cross-subsidies between North Shore's S.C. 1 heating and non-heating customers under existing rates.

It is possible – indeed it has been done for decades – to design rates for a non-homogenous class that are cost-based and do not cause significant cross-subsidies. The key to doing so is to identify the cost-causative factors and design rates that mirror those factors. My proposed rates do exactly that by recovering demand-related costs on a per-therm basis rather than on a per-customer basis. In other words, if the customer charge is set to recover only customer-related costs, and if demand- and commodity-related costs are recovered on a per-therm basis, then it is possible to have a non-homogenous class with cost-based rates that do not result in significant cross-subsidies within the class. Such a result is not possible, however, with SFV rates or rates that are moving toward SFV rates as the Companies have proposed.

I would emphasize that Ms. Hoffman Malueg's ECOSS identifies the appropriate factors (customer, demand, and energy), but SFV rates fail to set rates based on those factors. The problem is not with her ECOSS, but with the Companies' rate design. As I explained, the Companies' current rate design improperly recovers demand-related costs on a per-customer basis, and it is that flawed rate design that caused the millions of dollars of cross subsidies between non-heating and heating customers within S.C. 1.

AG Proposed Residential (S.C. 1) Rates

Q. Have you reviewed the rebuttal revenue requirement recommendations prepared by AG witnesses Brosch and Effron?

A. Yes, I have reviewed certain schedules from their rebuttal revenue requirement presentation. As I understand it, they are proposing base rate revenues for Peoples Gas of no more than $552,425,000, which is an increase of no more than $15,266,000 (AG Ex. 4.1, Schedule C, page 1, line 1) over their calculation of pro forma present base rate revenues. The comparable figures for North Shore are total base rate revenues of no more than $78,822,000, which is an increase of no more than $2,561,000 (AG Ex. 4.2, Schedule C, page 1, line 1) over their calculation of pro forma present rate revenues.

Q. Have you designed residential rates that are consistent with their recommendations?

A. Yes, I have calculated residential rates for both Peoples Gas and North Shore that would implement the AG witness's revenue requirement recommendations. Attached to this testimony as AG Ex. 6.03 is a three-page analysis that shows my calculation of S.C. 1 rates for PGL. Page 1 of the exhibit shows a comparison of PGL's present rates, PGL's proposed rates (from its rebuttal filing), and my proposed rates. Specifically, for PGL, I recommend a flat non-heating charge of $15.35 per month. This is a reduction of $6.90 per month from the existing customer charge, and the complete elimination of the per-therm charge (except for Rider SSC). For heating customers, the AG's revenue requirement would be collected if PGL charged a customer charge of $23.99 per month (an increase of $1.74 over the current charge), a first-block charge of 29.148¢ per therm (a decrease of less than one cent per therm), and a second-block charge of 16.793¢ per therm (an increase of less than one cent per therm). I show the calculation of these rates on pages 2-3 of that exhibit.

Q. Have you prepared a similar analysis for North Shore?

A. Yes. AG Ex. 6.04 contains a similar analysis for North Shore. Specifically, for NS I recommend a flat non-heating charge of $16.05 per month. This is a reduction of $5.95 per month from the existing customer charge, and the complete elimination of the per-therm charge (except for Rider SSC). For heating customers, the AG's revenue requirement would be collected if NS charged a customer charge of $20.51 per month (a reduction of $1.49 per month compared to the current charge), a first-block charge of 17.939¢ per therm (an increase of three-tenths of a cent), and a second-block charge of

9.754¢ per therm (an increase of about four cents per therm). I show the calculation of these rates on pages 2-3 of AG Ex. 6.04.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.